

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended March 31, 2002

Commission File Number 0-24120

**WESTERN OHIO FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

31-1403116  
(IRS Employer  
Identification No.)

28 East Main Street, Springfield, Ohio 45501-0509  
(Address of principal executive offices)  
(Zip Code)

(937) 325-9990  
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  X  No    

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

Class:	Outstanding at May 9, 2002
Common stock, \$.01 par value	1,767,527 common shares

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**WESTERN OHIO FINANCIAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

**Item 1. Condensed Financial Statements**

(Amounts in thousands, except share data)

	March 31, 2002	December 31, 2001
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,817	\$ 16,915
Securities available for sale	55,082	39,648
Federal Home Loan Bank stock	8,663	8,568
Loans, net	274,347	269,300
Premises and equipment, net	4,782	4,888
Other assets	3,002	2,392
Total assets	<u>\$351,693</u>	<u>\$341,711</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$220,231	\$220,287
Borrowed funds	86,593	76,655
Other liabilities	2,905	2,824
Total liabilities	<u>309,729</u>	<u>299,766</u>
Shareholders' equity		
Common stock, \$.01 par value, 7,250,000 shares authorized, 2,645,000 shares issued	26	26
Additional paid-in capital	40,575	40,622
Accumulated other comprehensive income (loss)	(127)	63
Unearned employee stock ownership plan shares	(536)	(595)
Unearned management recognition plan shares	(63)	(72)
Shares held by deferred compensation plan	(173)	(173)
Treasury stock; 882,074 and 889,499 shares, at cost	(17,987)	(18,157)
Retained earnings	20,249	20,231
Total shareholders' equity	<u>41,964</u>	<u>41,945</u>
Total liabilities and shareholders' equity	<u>\$351,693</u>	<u>\$341,711</u>

See accompanying notes to condensed consolidated financial statements.

**WESTERN OHIO FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**(Unaudited)**

(Amounts in thousands, except per share data)

		Three Months Ended March 31,	
		2002	2001
<b>Interest and dividend income</b>			
	Loans, including fees	\$4,745	\$5,679
	Securities	602	767
	Interest-bearing deposits and overnight funds	27	10
	Other interest and dividend income	95	143
		<u>5,469</u>	<u>6,599</u>
<b>Interest expense</b>			
	Deposits	2,035	2,716
	Borrowed funds	1,037	1,398
		<u>3,072</u>	<u>4,114</u>
<b>Net interest income</b>		2,397	2,485
Provision for loan losses		84	105
Net interest income after provision for loan losses		<u>2,313</u>	<u>2,380</u>
<b>Noninterest income</b>			
	Service charges	508	375
	Net gain on sale of loans	60	22
	Net gain on sale of securities	—	3
	Other	6	5
		<u>574</u>	<u>405</u>
<b>Noninterest expense</b>			
	Salaries and employee benefits	1,128	1,015
	Occupancy and equipment	227	211
	Federal deposit insurance	9	10
	State franchise taxes	134	135
	Professional service	85	94
	Advertising	83	70
	Data processing	202	185
	Other	340	250
		<u>2,208</u>	<u>1,970</u>
Income before income taxes		679	815
Income tax expense		230	293
<b>Net income</b>		449	522
Other comprehensive income (loss)		(190)	427
Comprehensive income		<u>\$ 259</u>	<u>\$ 949</u>
<b>Earnings per common share</b>			
	Basic	\$ .26	\$ .30
	Diluted	\$ .26	\$ .30
Dividends per common share		\$ .25	\$ .25

See accompanying notes to condensed consolidated financial statements.

**WESTERN OHIO FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

(Amount in thousands)	Three Months Ended March 31,	
	2002	2001
<b>Net cash from operating activities</b>	<b>\$ 794</b>	<b>\$ 1,050</b>
<b>Cash flows from investing activities</b>		
Securities available for sale:		
Maturities and principal payments	3,624	1,485
Purchases	(19,448)	(497)
Sales	—	4,622
Net (increase) decrease in loans	5,658	979
Purchase of loans	(10,836)	(773)
Premises and equipment expenditures	(62)	(90)
Proceeds from sale of premises and equipment	—	21
Net cash from investing activities	(21,064)	5,747
<b>Cash flows from financing activities</b>		
Net change in deposits	(56)	4,451
Net change in advances from borrowers for taxes and insurance	(358)	(342)
Purchase of treasury stock	—	(689)
Cash dividends paid	(441)	(463)
Proceeds from exercise of stock options	89	5
Net increase (decrease) in short-term borrowings	1,600	(8,900)
Proceeds from FHLB advances	12,000	2,500
Repayments on FHLB advances	(3,662)	(393)
Net cash from financing activities	9,172	(3,831)
Net change in cash and cash equivalents	(11,098)	2,966
Cash and cash equivalents at beginning of period	16,915	4,805
Cash and cash equivalents at end of period	\$ 5,817	\$ 7,771

**WESTERN OHIO FINANCIAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation:* The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Corporation’s annual report on Form 10-K for the year ended December 31, 2001. The financial data and results of operations for interim periods presented may not necessarily reflect the results to be anticipated for the entire year. Internal financial information is primarily reported and aggregated solely in the line of the banking business.

*Consolidation Policy:* The financial statements include Western Ohio Financial Corporation (“Western”) and its wholly-owned subsidiary Cornerstone Bank (“Cornerstone”), together referred to as the Corporation. The financial statements of Cornerstone include the accounts of its wholly-owned subsidiaries, CornerstoneBanc Financial Services, Inc. (“CFSI”) and West Central Financial Services, Inc. (“WCFS”). Intercompany transaction and balances are eliminated in consolidation.

*Use of Estimates:* To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, fair values of financial instruments and status of contingencies are particularly subject to change.

*Income Taxes:* Income tax expense is the total of the current-year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Income tax expense is based on the effective rate expected to be applicable for the entire year.

*Earnings Per Common Share:* Basic earnings per common share is based on net income divided by the weighted average number of common shares outstanding during the period. Employee Stock Ownership Plan (“ESOP”) shares are considered to be outstanding for the calculation unless unearned. Management Recognition Plan (“MRP”) shares are considered outstanding as they become vested. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options.

A new accounting standard dealing with asset retirement obligations will apply for 2003. The Corporation does not believe this standard will have a material affect on its financial condition or results of operations.

Effective January 1, 2002, the Corporation adopted a new accounting standard issued by the Financial Accounting Standards Board on impairment and disposal of long-lived assets. The effect of this standard on the financial position and results of operations of the Corporation was not material.

**WESTERN OHIO FINANCIAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 2 – SECURITIES**

The amortized cost and fair values of securities available for sale were as follows:

(Amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Loss	Fair Value
<b>March 31, 2002</b>				
U.S. government agencies	\$ 4,164	\$ —	\$ (82)	\$ 4,082
Municipal Securities	1,633	—	(76)	1,557
Mortgage-backed securities	49,478	241	(276)	49,443
Total	\$55,275	\$241	\$(434)	\$55,082
<b>December 31, 2001</b>				
U.S. government agencies	\$ 2,105	\$ 4	\$ (30)	\$ 2,079
Municipal Securities	1,634	—	(71)	1,563
Mortgage-backed securities	35,814	254	(62)	36,006
Total	\$39,553	\$258	\$(163)	\$39,648

There were no sales during the three months ended March 31, 2002. Gross proceeds from sales of securities during the three months ended March 31, 2001 were \$4,589, 000, with gross gains of \$3,000 included in earnings.

**NOTE 3 – LOANS**

Loans were as follows:

(Amounts in thousands)	March 31, 2002	December 31, 2001
First mortgage loans secured by:		
One to four family residential	\$149,246	\$154,915
Other properties	77,088	68,841
Construction properties	4,151	3,737
	230,485	227,493
Other loans:		
Consumer	1,101	1,289
Commercial	26,573	24,415
Home equity	19,752	19,468
	47,426	45,172
Total loans	277,911	272,665
Less:		
Net deferred loan fees, premiums and discounts	(164)	(117)
Loans in process	(1,648)	(1,553)
Allowance for loan losses	(1,752)	(1,695)
	\$274,347	\$269,300

(Continued)



**WESTERN OHIO FINANCIAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 3 – LOANS (Continued)**

Activity in the allowance for loan losses was as follows:

(Amount in thousands)

	Three Months Ended March 31,	
	2002	2001
Beginning balance	\$1,695	\$1,665
Provision for loan losses	84	105
Recoveries	251	20
Charge-offs	(278)	(50)
Ending balance	\$1,752	\$1,740

Nonperforming loans were \$1,747,000 and \$2,818,000 at March 31, 2002 and December 31, 2001.

Impaired loans were as follows:

	March 31, 2002	December 31, 2001
Loans with no allocated allowance for loan losses	\$ 196	\$ 829
Loans with allocated allowance for loan losses	—	208
Total	\$ 196	\$1,037
Amount of the allowance for loan losses allocated	\$ —	\$ 86

**NOTE 4 – DEPOSITS**

Deposits were as follows:

(Amounts in thousands)

	March 31, 2002	December 31, 2001
Checking – Noninterest bearing	\$ 9,071	\$ 8,637
Checking – Interest bearing	14,383	13,094
Money market accounts	57,903	57,500
Passbook and savings accounts	11,660	11,465
Certificates of Deposit:		
In denominations under \$100,000	104,992	107,843
In denominations of \$100,000 or more	22,222	21,748
	\$220,231	\$220,287

WESTERN OHIO FINANCIAL CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 5 – BORROWED FUNDS

Borrowed funds consisted of advances from the Federal Home Loan Bank of Cincinnati (“FHLB”) and are summarized by contractual maturity as follows:

(Amounts in thousands)

	March 31, 2002		December 31, 2001	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
FHLB advances maturing in:				
One year or less	\$12,655	4.76%	\$14,325	5.75%
Over 1 year to 3 years	21,151	4.63	9,335	6.58
Over 3 years to 5 years	57	6.89	730	6.60
Over 5 years	52,730	5.15	52,265	5.15
Total	\$86,593	4.97%	\$76,655	5.45%

NOTE 6 – EARNINGS PER COMMON SHARE

The factors used in the earnings per share computation were as follows:

(Amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2002	2001
Basic earnings per common share		
Net income	\$ 449	\$ 522
Weighted average common shares outstanding	1,760	1,804
Less: Average unallocated ESOP shares	(37)	(52)
Less: Average nonvested MRP shares	(4)	(4)
Average shares	1,719	1,748
Basic earnings per common share	\$ .26	\$ .30

WESTERN OHIO FINANCIAL CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

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NOTE 6 – EARNINGS PER COMMON SHARE (Continued)

	Three Months Ended March 31,	
	2002	2001
<b>Diluted earnings per common share</b>		
Net income	\$ 449	\$ 522
Weighted average common shares outstanding for basic earnings per common shares	1,719	1,748
Add: Dilutive effects of average nonvested MRP shares	—	—
Add: Dilutive effects of stock options	15	11
Average shares and dilutive potential common shares	1,734	1,759
Diluted earnings per common share	\$ .26	\$ .30

Stock options covering 78,736 and 105,808 shares of common stock were not considered in computing diluted earnings per common share for the three months ended March 31, 2002 and 2001, as they were antidilutive. In addition, nonvested MRP awards for 3,513 shares and 4,861 of common stock were not considered in computing diluted earnings per common share for the three months ended March 31, 2002 and March 31, 2001.

**WESTERN OHIO FINANCIAL CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discusses the financial condition of the Corporation as of March 31, 2002 as compared to December 31, 2001, and the results of operations for the three months ended March 31, 2002, compared with the same period in 2001. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

**Forward-Looking Statements**

When used in this filing and in future filings by the Corporation with the Securities and Exchange Commission, in the Corporation's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be", "will allow", "intends to", "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in the Corporation's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Corporation's market area and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Corporation wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made and advises readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Corporation's financial performance and could cause the Corporation's actual results for future periods to differ materially from those anticipated or projected.

The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences of unanticipated events or circumstances after the date of such statements.

**Analysis of Financial Condition**

Consolidated assets of the Corporation totaled \$351.7 million at March 31, 2002, an increase of \$10.0 million from the December 31, 2001, total of \$341.7 million. The primary increase in assets is a result of an increase of \$15.5 million in securities available for sale and the purchase of \$10.8 million in loans, offset by a decrease in cash and cash equivalents of \$11.1 million. The increase in assets was primarily funded by an increase in FHLB advances of \$9.9 million.

Net loans increased \$5.0 million during the three months ended March 31, 2002 to \$274.3 from \$269.3 million at December 31, 2001. Other commercial loans increased \$2.2 million to \$26.6 million at March 31, 2002 from \$24.4 million at December 31, 2001. Additionally, other real estate mortgage loans increased \$8.3 million from \$68.8 million at December 31, 2001 to \$77.1 million at March 31, 2002. This increase is due primarily to the purchase of \$10.8 million in participation loans offset by normal principal payments. Traditional one-to-four family residential mortgage loans decreased \$5.7 million to \$149.2 at March 31, 2002 from \$154.9 million at December 31, 2001. This decrease was due to loans sales, payoffs and amortizations exceeding new loan originations during the quarter.

**WESTERN OHIO FINANCIAL CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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Cash and cash equivalents decreased by \$11.1 million to \$5.8 million on March 31, 2002, from \$16.9 million on December 31, 2001. Cash and cash equivalents consist of cash, checking deposits and federal funds deposited at other financial institutions. The decrease was primarily the result of purchasing loans and securities during the quarter.

Securities available for sale increased \$15.5 million from \$39.6 million at December 31, 2001, to \$55.1 million on March 31, 2002. The increase was due to the purchase of \$19.4 million of securities available for sale, offset by maturities and principal payments.

Deposits at March 31, 2002 totaled \$220.2 million, a decrease of \$56,000 from \$220.3 million at December 31, 2001. The decrease occurred primarily in certificates of deposits, which decreased \$2.4 million, or 1.8% as deposits moved to shorter-term more liquid accounts. Savings and money market accounts increased \$600,000 to \$69.6 million as of March 31, 2002 compared to \$69.0 million on December 31, 2001. Deposits in interest-bearing checking accounts increased \$1.2 million due to the introduction of a non-profit sweep product.

FHLB advances at March 31, 2002 totaled \$86.6 million, an increase of \$9.9 million or 12.9% from \$76.7 million at December 31, 2001. Advances increased to fund security purchases during the period. The majority of borrowed funds are invested in loans to leverage the Corporation's excess capital and improve the Corporation's return on equity over time.

Total shareholders' equity increased \$19,000 from \$41.9 million at December 31, 2001, to \$42.0 million at March 31, 2002. This increase is primarily due to the exercise of stock options and issuance of management recognition plan shares, offset by a decrease of \$190,000 in comprehensive income.

As of March 31, 2002, the Corporation had commitments to make \$2.5 million of residential loans. It is expected that these loans will be funded within 30 days. The Corporation also had \$1.6 million in commitments to fund loans on residential properties under construction. These commitments are anticipated to be filled within three to six months. Unused commercial lines of credit were \$7.2 million and unused home equity lines of credit were \$13.3 million. Commitments to originate consumer loans total \$640,000 and commitments to fund commercial loans total \$4.5 million.

**Results of Operations**

Operating results of the Corporation are affected by general economic conditions, monetary and fiscal policies of federal agencies and policies of agencies regulating financial institutions. The Corporation's cost of funds is influenced by interest rates on competing investments and general market rates of interest. Lending activities are influenced by demand for real estate and other types of loans, which, in turn, is affected by the interest rates at which such loans are made, general economic conditions and availability of funds for lending activities.

The Corporation's net income is primarily dependent on its net interest income (the difference between interest income generated on interest-earning assets and interest expense incurred on interest-bearing liabilities). Net income is also affected by provisions for loan losses, service charges, gains on sale of assets, other income, noninterest expense and income taxes. The Corporation's net income of \$449,000 for the three months ended March 31, 2002, represented a decrease of \$73,000 or 14%, compared to the same period in 2001. The returns on average assets and average shareholders' equity for the three months

**WESTERN OHIO FINANCIAL CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
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ended March 31, 2002 were 0.52% and 4.24%, respectively, compared to 0.59% and 4.95% for the same period in 2001. Basic earnings per share decreased \$.04 per share from \$.30 per share for the three months ended March 31, 2001 to \$.26 per share for 2002.

Net interest income is the largest component of the Corporation's income and is affected by the interest rate environment and volume and composition of interest-earning assets and interest-bearing liabilities. Net interest income totaled \$2,397,000 for the three months ended March 31, 2002, compared to \$2,485,000 for the same period in 2001. The decrease in net interest income of \$88,000 is primarily due to lower interest rates on loans and securities, partially offset by lower rates on interest bearing liabilities. Net interest margin decreased to 2.87% for the three months ended March 31, 2002 from 2.90% for the same period in 2001. Cornerstone is more sensitive to rising rates than declining rates. From an overall perspective, such difference in sensitivity occurs principally because, as rates rise, borrowers do not prepay fixed-rate loans as quickly as they do when interest rates are declining. Thus, in a rising interest rate environment, because Cornerstone has primarily fixed-rate loans in its loan portfolio, the amount of interest Cornerstone would receive on its loans would increase relatively slowly as loans are slowly prepaid and new loans at higher rates are made. Moreover, the interest Cornerstone would pay on its deposits would increase relatively rapidly because Cornerstone's deposits generally have shorter periods to repricing.

Interest and fees on loans totaled \$4,745,000 for the three months ended March 31, 2002 compared to \$5,679,000 for the three months ended March 31, 2001. The decrease of \$934,000 was due primarily to lower interest rates and to a lesser degree, lower average principal balances outstanding.

Interest and dividends on securities totaled \$602,000 for the three months ended March 31, 2002, and \$767,000 for the three months ended March 31, 2001. The decrease was due to lower interest rates partially offset by an increase in average securities held for sale.

Interest on deposits decreased \$681,000 or 25.1% from \$2,716,000 for the three months ended March 31, 2001 to \$2,035,000 for the three months ended March 31, 2002. This decrease was primarily due to lower interest rates and partially offset by somewhat higher average outstanding deposit balances.

Interest on FHLB advances was \$1,037,000 for the three months ended March 31, 2002 compared to \$1,398,000 for the three months ended March 31, 2001. The decrease of \$361,000 or 25.8% is due primarily to a \$19.1 million decrease in outstanding average advances and lower cost of new advances.

The Corporation maintains an allowance for loan losses in an amount which, in management's judgment, is adequate to absorb probable losses in the loan portfolio. While management utilizes its best judgment and information available, ultimate adequacy of the allowance is dependent on a variety of factors, including performance of the Corporation's loan portfolio, the economy, changes in real estate values and interest rates and the view of the regulatory authorities toward loan classifications. The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level considered adequate to absorb probable losses in the loan portfolio. The amount of the provision is based on management's regular review of the loan portfolio and consideration of such factors as historical loss experience, changes in size and composition of the loan portfolio and specific borrower considerations, including ability of the borrower to repay the loan and the estimated value of the underlying collateral. The provision for loan losses totaled \$84,000 for the three months ended March 31, 2002, compared to \$105,000 for the three months ended March 31, 2001.

**WESTERN OHIO FINANCIAL CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
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Loan charge-offs were \$278,000 for the three months ended March 31, 2002 compared to \$50,000 for the same period in 2001. Recoveries were \$251,000 for the three months ended March 31, 2002 compared to \$20,000 for the three months ended March 31, 2001. The increase in both charge-offs and recoveries for the three months ended March 31, 2002 was primarily the result of resolving one problem commercial real estate relationship during the quarter. Management believes that the total allowance of \$1.8 million on total loans of \$278 million at March 31, 2002 is adequate given the collateral supporting non-performing loans, area economic conditions, the level of impaired and non-performing loans, and the composition of the loan portfolio. The Corporation will continue to review its allowance for loan losses and make further provisions as economic and asset quality conditions dictate.

Noninterest income totaled \$574,000 for the three months ended March 31, 2002 compared to \$405,000 for the same period in 2001. Service charges on loans and deposits increased \$133,000 from \$375,000 in March 31, 2001 to \$508,000 in March 31, 2002. Service charges on deposits, including non-sufficient funds, increased \$98,000. Loan service and prepayment fees increased \$35,000 due to increased fees collected on loans. Additionally, the Corporation realized gains on loans sold of approximately \$60,000, compared to only \$22,000 for the similar period last year.

Noninterest expense increased \$238,000, or 12.1%, from \$1,970,000 for the three months ended March 31, 2001 compared to \$2,207,000 for the period ending March 31, 2002. This increase is primarily due to increases in salaries and benefits of \$113,000 and other noninterest expense of \$90,000. Other noninterest expense consists of items such as telephone, printing and supplies, and consulting fees. Additionally, included in the total for the three months ended March 31, 2002 is approximately \$110,000 of expenses related to the Company's Centerville, Ohio branch opened in September 2001. It is anticipated the new branch will continue to have an impact on noninterest expense for the comparison periods in 2002.

The change in income tax is primarily attributable to the change in income before income taxes. Income tax expense totaled \$230,000, or an effective rate of 33.9%, for the three months ended March 31, 2002, compared to \$293,000, or an effective rate of 35.9%, for the three months ended March 31, 2001. The effective rate decrease is primarily due to an increase in tax-exempt income.

**Liquidity**

Office of Thrift Supervision ("OTS") regulations presently requires Cornerstone Bank to maintain sufficient liquidity to assure its safe and sound operation. To that end, Cornerstone Bank maintains investments having maturities of 5 years or less, sells loans into the secondary market and borrows funds from the FHLB. These activities are intended to provide a source of relatively liquid funds on which Cornerstone may rely, if necessary, to fund deposit withdrawals or other short-term funding needs. At March 31, 2002 Cornerstone had commitments to originate \$2.5 million in residential loans. In addition, Cornerstone had \$1.6 million in commitments to fund loans on residential properties under construction. Unused commercial lines of credit were \$7.2 million and unused home equity lines of credit were \$13.3 million. Commitments to originate consumer loans were \$640,000 and commitments to fund commercial loans totaled \$4.5 million. Cornerstone had no commitments to purchase or sell loans. Cornerstone considers its liquidity and capital reserves sufficient to meet its outstanding short and long-term needs.

**Capital Resources**

Cornerstone is required by regulations to meet certain minimum capital requirements, which must be generally as stringent as standards established for commercial banks. Current capital requirements call for tangible capital of 1.5% of adjusted total assets, core capital (which, for Cornerstone, consists solely of

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tangible capital) of 4.0% of adjusted total assets, except for institutions with the highest examination rating and acceptable levels of risk, and risk-based capital (which, for Cornerstone, consists of core capital and general valuation allowances) of 8.0% of risk-weighted assets (assets are weighted at percentage levels ranging from 0% to 100% depending on their relative risk).

The following table summarizes Cornerstone’s regulatory capital requirements and actual capital at March 31, 2002.

(Dollars in thousands)	Actual capital		Current requirement		Excess of actual capital over current requirement		Applicable Asset Total
	Amount	Percent	Amount	Percent	Amount	Percent	
Tangible capital	\$39,714	11.29%	\$ 5,277	1.5%	\$34,437	9.79%	\$351,777
Core capital	39,714	11.29	14,071	4.0	25,643	7.29	351,777
Risk-based capital	41,424	17.25	19,208	8.0	22,216	9.25	240,101



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**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

There have been no material changes in the quantitative and qualitative disclosures about market risk as of March 31, 2002, from that presented in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

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PART II - OTHER INFORMATION

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- Item 1 -     **Legal Proceedings**  
None
- Item 2 -     **Changes in Securities and Use of Proceeds**  
None
- Item 3 -     **Defaults Upon Senior Securities**  
None
- Item 4 -     **Submission of Matters to a Vote of Security Holders**  
None
- Item 5 -     **Other Information**  
None
- Item 6 -     **Exhibits and Reports on Form 8-K**  
(a) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
Not required	
(b)	No current reports on Form 8-K were filed by the Registrant during the quarter ended March 31, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WESTERN OHIO FINANCIAL CORPORATION  
(Registrant)

Date: May 13, 2002

/s/ John W. Raisbeck

President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 13, 2002

/s/ Craig F. Fortin

Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)